Media Release

Corporate Communications
100 Queen Street
Melbourne Vic 3000
www.anz.com

For Release: 18 February 2008

ANZ trading update

In a shareholder update today after 4 months of trading, ANZ said that anticipated growth in profit before provisions for 2008 is on track to exceed the growth rate achieved in 2007 although it is expected this will be offset by higher provisions associated with the changing global credit environment.

Key Points

- Growth in profit before provisions on track to exceed growth rate of 11.5% achieved in 2007.
- Solid momentum in all ANZ's businesses including a turnaround in Institutional.
- Strong growth in last 12 months in lending (17%) and deposits (23%).
- No direct exposure to US sub-prime.
- Increases in provisions include an Individual Provision of US$200 million on a derivative position with a US monoline insurer which has been downgraded to non-investment grade. It is likely a substantial portion of this provision will be written back in future periods.

ANZ Chief Executive Officer Mike Smith said: "ANZ's underlying business is in good shape with growth in profit before provisions being driven by strong revenue growth, while the balance sheet has a conservative funding profile and high level of collective provision coverage.

"In the first four months trading, good performances from Personal and Asia, a turnaround in Institutional, and solid results from New Zealand have been overshadowed by higher credit costs on commercial lending. This includes the potential impairment of a monoline counterparty with a US$200 million mark-to-market exposure, although we believe the accounting treatment overstates the likely loss over the life of the transaction.

"While the Australian economy is expected to remain strong, the ongoing instability in global credit markets adds a higher than normal level of uncertainty. This requires a steady focus on growth, risk management and productivity to ensure we remain on track to meet the goals we have set. These include restoring business performance in Institutional and substantially increasing our presence in selected Asian economies.

"We are progressing well but as previously warned we have not been immune from global market issues, including uncertainty around funding costs. However the current turmoil also presents some opportunities to build our business for the longer term, which should help outweigh any shorter term issues," Mr Smith said.

…../2.

Divisional Performance

Personal continues to perform well, particularly in Small Business and Banking Products which is largely retail deposits. As at 31 January 2008, Retail Mortgages were up 13% over 12 months, with household deposits up 13%.

Institutional is on track to deliver a turnaround in performance at an underlying level, with excellent revenue growth a feature supported by the substantial opportunities associated with the current market dislocation. In the first four months, Institutional lending assets have grown 17%, to be up 30% on the same period last year, while deposits are up 26% on the same basis. The performance in Markets, Corporate Finance and Business Banking was a feature. Under IFRS, the high lending growth results in a higher Collective Provision immediately, while revenues flow through over time. This higher Collective Provision together with the provision issues outlined below will dampen net profit growth for Institutional.

New Zealand Businesses should have a reasonable year, with market share growth in the retail banks, and good performance expected from Corporate and Commercial Banking, Rural Banking, and UDC.

Asia is delivering very high growth in both institutional and retail banking and an increasing contribution from our partnership investments.

Headline interest margins are likely to decline by more than they have in recent years, due to very high growth in low-risk Institutional lending which has a lower margin than the Group average, and the delay in passing on higher funding costs to customers.

For the Group, revenue growth for 2008 is expected to exceed expense growth, but with expense growth remaining high partly due to the full year impact of investments in 2007. This includes the opening of 31 new branches in Australia in the second half of 2007, and a continued focus on investing for the future including the development of our franchise in Asia.

Productivity will be one area of focus to support the priorities ANZ has set. A new senior executive role reporting to the Chief Executive Officer has been created to drive strategic productivity improvement across the Group including cost management and organisational efficiency and effectiveness.

Credit Quality

The turmoil in global financial markets has impacted a small number of customers and counterparties which is likely to result in higher credit costs.

Consumer credit quality in Australia has remained solid with low arrears and actual losses modestly below initial expectations. The health of the consumer market is reflected in credit card arrears being 5 basis points below levels 12 months ago, high rates of deposit growth, and higher than normal principal repayments on mortgages which have partly offset a high level of new approvals.

The commercial portfolio remains in good shape overall. A number of reviews have been conducted on key parts of the portfolio which could be impacted by the turmoil and ANZ is comfortable with the overall health of those portfolios.

There are however three specific instances where material provisions are required:

- Exposure to US monoline insurer - between 2005 and February 2007, ANZ entered into derivative transactions which involved selling credit protection on a portfolio of corporate names, and simultaneously buying matching protection from highly rated US financial institutions to remove market risk. This was perceived to involve little credit risk and generated modest trading income.

The significant increase in derivative market credit spreads and volatilities has resulted in a positive mark to market position with the sellers of the credit protection. However one counterparty, which is a US monoline insurer, has been downgraded to a CCC credit rating. The uncertainty around the ability of that firm to meet its obligations under the hedging agreement has resulted in an accounting requirement to raise an Individual Provision of US$200 million based on the current mark to market exposure to that monoline.

The effective economic impact if the monoline insurer fails is that ANZ takes on direct exposure to a high quality portfolio of corporate names. In fact, this portfolio has a higher proportion of investment grade corporates than ANZ's existing Institutional portfolio. For an actual loss to emerge, around 20% of names within the portfolio would need to default. This would only occur in an extreme environment in which a significant number of companies defaulted globally, which is not anticipated under any current economic scenario.

Whilst the provision will vary with movements in the mark to market, we expect that a significant proportion of the Individual Provision will be written back in future periods.

- Impact of credit rating changes on a commercial property client - a significant credit rating downgrade for one large commercial property client has resulted in a charge to the Collective Provision of around $90 million although at this stage it has not been necessary to make an Individual Provision. A review indicates the factors driving this client's credit rating downgrade were specific to that client, with the remainder of the commercial property portfolio in good shape.

- Failure of a resources client has resulted in an additional Individual Provision of $51 million.

Credit protection intermediation activities

In addition to the monoline exposure mentioned above, ANZ has credit protection intermediation arrangements with a number of counterparties all rated AA or better. The mark to market counterparty exposure is US$667 million, although the matched nature of the trades removes the market risk.

Loans on which credit enhancement has been purchased

ANZ has some loans to corporate clients on which credit enhancement has been purchased from US monoline insurers. The mark-to-market on these exposures is not material and ANZ remains comfortable with the strength of underlying assets which are themselves investment grade, and are primarily high quality infrastructure assets such as transmission networks and airports. The purpose of the credit enhancement was to achieve AAA rating status, with the associated reduction in economic capital costs offsetting the cost of buying protection.

Capital Position

With full year business lending targets achieved within the first three months, growth in Risk Weighted Assets has been well above our initial expectations and this has absorbed much of the additional flexibility provided by the underwriting of the Dividend Reinvestment Plan for the final dividend for 2007.

Capital management plans for the remainder of the year will partly depend on the implications of Basel 2, an assessment of the prospects for future above average growth in Institutional lending, and value creating acquisitions.

Funding Position

During the turmoil in markets associated with the US sub-prime crisis, ANZ has continued to regularly access global markets for its wholesale funding program.

Since the start of the financial year, ANZ has raised term wholesale funding of $12 billion and is on track to meet its full year term funding target of at least $25 billion. While there has been no material change to the 2008 term funding program, the cost of this term funding has increased significantly. These increased funding costs have only been partially offset by higher interest rates for customer lending.

Approximately 55% of ANZ's non-equity funding is sourced from its retail and business customers.

ANZ will hold a conference call for investors at 9.30am today with Chief Executive Officer Mike Smith, and Chief Financial Officer Peter Marriott. This conference call will be streamed live on anz.com, and a replay of the call will be available on anz.com in the afternoon.

ANZ will report its Interim Results for the period ended 31 March 2008 in Melbourne on 23 April 2008.

For media enquiries contact:

Paul Edwards
Head of Corporate Communications
Tel: 0409-655 550
Email: paul.edwards@anz.com

For analyst enquiries contact:

Stephen Higgins
Head of Investor Relations
Tel: 03-9273 4185 or 0417-379 170
Email: stephen.higgins@anz.com